



restoring quality of life

Corin Group PLC Interim Report 2005

Highlights

- Group sales £13.0 million (2004: £12.9 million)
- Mobile bearing knee and metal on metal hip sales up 17% and 21% respectively
- Underlying operating profit* £2.5 million (2004: £2.8 million)
- Underlying EPS 4.01p* (2004: 4.65p)
- Interim dividend 0.48p (2004: 0.48p)
- Metal on metal hip sales up 14% in the UK and 40% in Germany
- Long term USA distribution agreement with Stryker signed
- Pre Market Approval application in the USA for Cormet progressing well
- Investment in Group infrastructure worldwide

* Before the impact of currency hedging and share based payments

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Chairman's statement

We are now in a much stronger position to exploit the opportunities around the world and particularly in the US, with our unique hip and knee devices for the young active baby boomer generation.

Strategic overview

During 2005 the Group has continued to focus on its strategy of concentrating its resources and efforts on its high value, high margin flagship proprietary products, whilst steadily reducing its involvement in the non core areas of trauma and spinal fusion. Fundamental to this has been continued development of sales of the two primary families of products – mobile bearing knees and metal on metal hips – which are aimed at the increasingly demographically important group of young, active, arthritic patients. As expected, this policy has seen the continued reduction in worldwide sales of the generic range of trauma and spinal products.

The most important objective for the Group, to secure US distribution of its metal on metal hip devices, Cormet and Optimom, was initiated and completed. The agreement with Stryker Corporation (“Stryker”) is of critical importance to Corin as it links the Group’s cutting edge technology with one of the leading orthopaedic device companies worldwide. The Board anticipates a significant inflow of revenues in 2006 from the initial stocking order, following anticipated FDA approval of Corin’s proprietary metal on metal hip products.

The Group has also continued to invest heavily in its infrastructure around the world in order to be able to distribute effectively its product portfolio. Investment in direct sales operations overseas, as well as strengthening management in regulatory, product development and administration have led to a necessary increase in the cost base of the business.

This strategy of radically changing the business profile to allow long term substantial growth of the business is now nearly complete.

Trading results

Overall, Group sales were £13.0 million (2004: £12.9 million) in the six months to 30 June 2005 with sales of the proprietary flagship products, mobile bearing knees and metal on metal hips, up by 17% and 21% respectively. These products now represent 64% of Group turnover, up from 54%, reflecting the Board’s focus on the Group’s proprietary products. As expected sales of the Group’s generic trauma, spinal and disposable devices fell by 29% over the first half of 2004. Currency movements were immaterial during the six months to 30 June 2005.

Direct sales, representing 80% of total sales, were flat at £10.4 million (2004: £10.4 million), whilst sales to third party distributors around the world increased by 8% to £2.6 million (2004: £2.4 million). The change in the Group’s geographical sales mix, notably due to reduced sales in both Japan and the USA, together with a major reduction in high margin spinal sales, resulted in a slight fall in gross margin to 71% (2004: 72%).

The 2005 Interim Report is the first in which Corin has reported under International Financial Reporting Standards (IFRS). Previously all reporting was under United Kingdom Generally Accepted Accounting Principles (UK GAAP). Comprehensive reconciliations and restatements of the comparative June 2004 results are set out later in this report. The restatement of the Group’s 2004 figures was published on 22 September 2005. The Group’s underlying performance is stated before the impact of currency hedging and share based payments which are the most significant changes under IFRS.

Underlying operating profit was down 11% to £2.5 million (2004: £2.8 million) as a consequence of the investment programme outlined above with underlying operating margins of 19%. After currency hedging of £0.1 million and share based payments of £0.3 million, operating profit was £2.1 million (2004: £2.7 million).

Underlying profit before tax fell 12% to £2.4 million (2004: £2.7 million) after a marginally increased interest charge. Profit before tax under IFRS was £2.0 million (2004: £2.6 million).

Underlying earnings per share were down by 14% to 4.01 pence (2004: 4.65 pence), reflecting an increase in the number of shares in issue. Earnings per share under IFRS were 3.40 pence (2004: 4.47 pence.)

Following the Group's agreement with Stryker, the Board remains very confident of the Group's prospects and is paying an interim dividend at 0.48 pence per share (2004: 0.48 pence per share).

The Group generated £0.6 million (2004: £1.6 million) from operations in the first half of 2005 as working capital increased as part of the Group's investment programme. The continued investment in capital equipment and large tax payments resulted in a reduction in cash and cash equivalents of £2.1 million during the first half of 2005, compared to an increase of £2.3 million in the first half of 2004. The latter was largely due to a share placing which generated £4.9 million net. Net debt at 30 June 2005 was £1.6 million (2004: net cash £1.4 million).

Operating review

In the UK, total sales were broadly flat at £4.5 million in the first half (compared to £4.6 million in the first half of 2004). The increase in sales of the Group's proprietary devices, including the metal on metal devices where sales were up 14% in the first half, was offset by the anticipated reduction in sales of disposables, trauma and spine, down 9% in the first half. This increase was achieved despite a much more competitive market place, in which most of the major competitors now have metal on metal devices approved for sale in the UK. Knee sales in the UK were comparatively slow with an increase of only 3% in the first half. The Uniglide knee continues to make good progress, but sales of Rotaglide+ were hit by the retirement of two key surgeons and the loss of business from District General Hospitals to Treatment Centres.

Sales from the German operation were up 7% to £2.5 million in the first half (£2.3 million in the first half of 2004) despite continuing difficult market conditions and pricing pressure. Cormet led with an impressive 40% first half growth as Corin continued to take market share in this important territory for resurfacing. Cormet now represents 23% of German sales.

As anticipated, USA sales were affected by the planned withdrawal from the spinal fusion market. Cormet sales growth was also constrained as all clinical trial sites are full. Corin had some successes with increasing take up of trial sites for Rotaglide+, as a result of instrument enhancements made at the end of 2004. Overall, USA sales in the first half were down by 30% to £0.9 million (£1.3 million in the first half of 2004).

The newly appointed Chief Executive for the whole Asia Pacific region has enabled Corin to arrest the sales decline in Japan seen in the second half of 2004, although sales have not yet recovered to the levels seen in the first half of 2004. As with other parts of the Group, the Board is focusing on the proprietary products in Japan.





Sales by Corin South Africa and Corin Australia, two of the Group's more recently established direct sales operations, continue to show year on year growth. The Australian business is gathering momentum and gaining share, with Cormet and Uniglide leading the way. South Africa has a similar product base whilst at the end of the half year Corin was seeing positive signs from the new business in Shanghai, China.

During the first half of 2005, sales to third party distributors recovered very well with a particularly strong performance by the Group's distributor in Turkey, which broadened its product sales portfolio.

Distribution agreement with Stryker

As previously stated, the Board has been reviewing a number of potential distribution options in the USA for its flagship products. The in-depth review concluded that a distribution agreement with a market leader would provide the best opportunity for Corin to grow rapidly in the USA.

In August, the Board was delighted to announce an exclusive, long term distribution agreement in the USA for Cormet and Optimom with Stryker. The distribution agreement, which is subject to the relevant FDA approval of the products, has a 10-year initial term and combines Stryker's premier position as the worldwide leader in hip joint replacement, with Corin's 17 years experience designing and manufacturing innovative medical devices.

The Group's PMA (Pre Market Approval) submission for Cormet is progressing. Corin is in regular discussions with the FDA and in the process of clarifying the next steps. The regulatory submission for Optimom is anticipated to follow Cormet approval. Corin anticipates that it will be one of the earliest companies to have a resurfacing hip system approved for sale in the USA. This will create a substantial window of opportunity for broad penetration of this leading technology, particularly for the young, active arthritic patient.

In June 2004 an FDA Advisory Panel recommended down-classification of mobile bearing knees to Class 2 devices, thus potentially allowing for a much quicker approval route for Corin's proprietary knee products. In anticipation of the down-classification occurring, and in order to ensure Corin's regulatory resources are entirely focused on the anticipated FDA approval of Cormet, the Group has ceased patient enrolment in the IDE clinical trial for Rotaglide+. The Group is actively working with a USA industry umbrella group to ensure down-classification occurs at the earliest opportunity.

Product development

Corin's product development activities have been predominantly focused on enhancing both the product and instrumentation platforms for its metal on metal devices. The Group has started the process of expanding and filling in the size range of Cormet, to make it the most comprehensive resurfacing system available. Further improvements to the instrument platform have also commenced.

Navigated Cormet procedures have now been successfully carried out and Corin's collaborative agreement with Acrobot, for development of a CT based pre-operative planning and implantation technology, is creating significant interest.

The other major area where the Group has expended product development resources is in the field of spinal disc replacement. Corin has continued work on two disc replacement projects – a metal on metal cervical disc replacement device and a percutaneous, periprosthetic disc nucleus replacement device (PPN). Controlled implantations of the cervical disc device should commence in 2006. The PPN device, which is a conservative treatment option with the objective of allowing day case surgery, is being developed with a group of Scottish universities. It is likely that Corin will seek commercial partners in the future to distribute these spinal disc devices.

Board change

Clive Richards, the senior non executive director, has indicated that he intends to retire by the end of the year. The Board will be seeking to appoint another non executive director on his retirement.

Outlook

The USA agreement with Stryker is of major significance and will allow Corin to achieve substantial sales in the most important territory worldwide, once regulatory approval has been secured. This agreement is not only a critically important development for the Group in the USA, but a major milestone in its international development. The Board will evaluate the distribution model that has been developed for the USA to see if it is appropriate for other products in other markets.

The second half of 2005 has begun steadily, but overall the Group is in a much stronger position to exploit the undoubted strength of its product portfolio in the largest market in the world.

G M Hart
Chairman

27 September 2005



Consolidated income statement for the period ended 30 June 2005

	Note	Unaudited 6 months to 30 June 2005 £'000	Unaudited 6 months to 30 June 2004 £'000	Audited 12 months to 31 December 2004 £'000
Revenue	2	13,018	12,859	25,636
Cost of sales		(3,806)	(3,638)	(7,305)
Gross profit		9,212	9,221	18,331
Distribution costs		(290)	(253)	(525)
Administrative expenses		(6,816)	(6,303)	(12,724)
Operating profit		2,106	2,665	5,082
Net interest		(93)	(75)	(129)
Profit on ordinary activities before taxation		2,013	2,590	4,953
Taxation	3	(614)	(824)	(1,467)
Profit for the period		1,399	1,766	3,486
Attributable to:				
Equity holders of parent company		1,380	1,728	3,447
Minority interests		19	38	39
		1,399	1,766	3,486
Earnings per share				
- Basic	5	3.40p	4.47p	8.69p
- Diluted	5	3.27p	4.36p	8.37p

Consolidated balance sheet as at 30 June 2005

	Note	Unaudited 30 June 2005 £'000	Unaudited 30 June 2004 £'000	Audited 31 December 2004 £'000
Assets				
Non-current assets				
Goodwill and intangible assets		2,838	2,305	2,458
Property, plant and equipment	6	5,985	4,776	5,743
Deferred tax		524	213	333
Total non-current assets		9,347	7,294	8,534
Current assets				
Inventories		10,896	8,182	9,593
Trade and other receivables		6,305	5,902	5,845
Cash and cash equivalents		2,238	4,050	4,337
Total current assets		19,439	18,134	19,775
Total assets		28,786	25,428	28,309
Equity and liabilities				
Equity attributable to equity holders of the parent				
Called up share capital	8	1,024	1,010	1,010
Share premium account		13,798	13,161	13,157
Employee share scheme reserve		1,027	383	630
Own shares held reserve		(10)	(10)	(10)
Translation reserve		(324)	(246)	(241)
Retained earnings		4,741	1,936	3,461
Equity shareholders' funds	9	20,256	16,234	18,007
Minority interests		533	507	514
Total equity	2	20,789	16,741	18,521
Non-current liabilities				
Long-term borrowings		2,584	1,685	2,812
Deferred tax		97	-	97
Provisions		240	240	240
Total non-current liabilities		2,921	1,925	3,149
Current liabilities				
Trade and other payables		3,615	4,538	4,419
Short-term borrowings		1,282	925	920
Current tax payable		179	1,299	1,300
Total current liabilities		5,076	6,762	6,639
Total liabilities		7,997	8,687	9,788
Total equity and liabilities		28,786	25,428	28,309

Consolidated cash flow statement for the period ended 30 June 2005

	Unaudited 6 months to 30 June 2005 £'000	Unaudited 6 months to 30 June 2004 £'000	Audited 12 months to 31 December 2004 £'000
Note			
Cash flows from operating activities			
Profit before tax	2,013	2,590	4,953
Adjustments for:			
Depreciation and amortisation	758	630	1,342
Interest expense	93	75	129
Share based payments	171	94	220
Increase in inventories	(1,363)	(1,482)	(2,282)
Increase in trade and other receivables	(416)	(565)	(348)
(Decrease)/increase in trade payables	(765)	165	(139)
Loss on sale of property, plant and equipment	147	142	121
Cash generated from operations	638	1,649	3,996
Interest paid	(125)	(82)	(192)
Taxes paid	(1,439)	(917)	(1,532)
Net cash flows from operating activities	(926)	650	2,272
Cash flows from investing activities			
Interest received	32	–	63
Acquisitions	–	(395)	(1,528)
Capital expenditure	(1,551)	(2,080)	(3,115)
Net cash used in investing activities	(1,519)	(2,475)	(4,580)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital	655	4,905	4,901
Proceeds from/(repayment of) borrowings	170	(467)	459
Payment of finance lease liabilities	(70)	(36)	(70)
Equity dividends paid	(364)	(308)	(502)
Net cash received from financing activities	391	4,094	4,788
Net increase in cash and cash equivalents	(2,054)	2,269	2,480
Cash and cash equivalents at the beginning of the period	10	4,295	1,835
Exchange adjustments	(3)	(54)	(20)
Cash and cash equivalents at the end of the period	2,238	4,050	4,295

For the purposes of the Consolidated Cash Flow Statement, cash and cash equivalents comprise the following:

	Unaudited 30 June 2005 £'000	Unaudited 30 June 2004 £'000	Audited 31 December 2004 £'000
Cash and cash equivalents	2,238	4,050	4,337
Bank overdraft	–	–	(42)
	2,238	4,050	4,295

Consolidated statement of recognised income and expense for the period ended 30 June 2005

	Unaudited 6 months to 30 June 2005 £'000	Unaudited 6 months to 30 June 2004 £'000	Audited 12 months to 31 December 2004 £'000
Employee share scheme	243	133	316
Exchange differences on translation of foreign currency net investments	(83)	(246)	(241)
Tax on items taken directly to equity	419	128	192
Net expense recognised directly in equity	579	15	267
Profit for the period	1,399	1,766	3,486
Total recognised income for the period	1,978	1,781	3,753
Attributable to:			
Equity holders of the parent company	1,959	1,743	3,714
Minority interests	19	38	39
	1,978	1,781	3,753

Notes to the interim report for the period ended 30 June 2005

1 Principal accounting policies

Basis of preparation

The principal accounting policies of the Group are unchanged from the International Financial Reporting Standards (IFRS) Transition Report that were restated from the Group's 2004 annual report and financial statements under UK GAAP.

The financial information presented in this document has been prepared in accordance with IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations that are applicable up to the date of the interim report. These are subject to ongoing review and endorsement by the European Commission, or possible amendment by the IASB, and are therefore subject to possible change. Further standards or interpretations may also be issued that could be applicable for 2005. These potential changes could result in the need to change the basis of accounting or presentation of certain financial information from that presented in this document.

The Group may need to review some accounting treatments used for the purpose of this document as a result of emerging industry consensus on practical application of IFRS and further technical opinions. This could mean that the financial information in this document may require modification until the Group prepares its first complete set of IFRS financial statements for the 2005 financial year.

These are the Group's first IFRS Consolidated Interim Statements covering the first half of the year in which the Group's Annual Report will be reported under IFRS. These consolidated interim statements do not comply with all the disclosures required under IAS 34 and, therefore, do not fully comply with IFRS.

Reconciliations between UK GAAP and IFRS for the results for the year ended 31 December 2004 can be found in the IFRS Transition Report which is available on the Group's website. The reconciliations for the results for the period ended 30 June 2004 can be found in notes 13 and 14 of these consolidated interim statements.

The interim financial statements have been reviewed by the Group's auditors. A copy of the auditors' review report is attached to this interim report.

Accounting policy

The Group has taken advantage of the exemption not to restate comparatives for IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" but to apply these standards from 1 January 2005.

The following accounting policy represents a change to the Group's IFRS accounting policies as a result of the adoption of IAS 32 and IAS 39 with effect from 1 January 2005. This also replaces the Group's previous accounting policy "Derivatives and other financial instruments" disclosed in the Group's Annual Report 2004.

Financial instruments

Financial instruments are used to manage the financial risks arising from the business activities of the group and the financing of those activities. There is no trading in financial instruments.

The Group applies IAS 39 under which hedge accounting is allowed when certain criteria are met. Under IAS 39, financial instruments are recorded initially at fair value, with subsequent measurement either at fair value or amortised cost dependent on the nature of the financial asset or liability.

IAS 39 categorises hedges into three types: fair value, cash flow and net investment. In the case of fair value hedges, movements in value between the hedged item and the hedging instrument are reflected through the income statement. In contrast, for cash flow or net investment hedges, movements in fair value of hedging instruments are accounted for in equity and recycled through the income statement as changes in the hedged item are recognised.

Notes to the interim report for the period ended 30 June 2005 continued

Net investment hedges

Forward exchange contracts are used as balance sheet hedging instruments to hedge foreign currency assets and borrowings. Initial valuation and any movement in the valuation of the forward element of these hedges is recognised directly in the income statement, with the spot element forming the IAS 39 hedge relationship.

Certain derivative instruments, whilst providing effective economic hedges under the group's risk policies, do not qualify for IAS 39 hedge accounting. Where criteria to enable hedge accounting are not met, movements in the valuation of derivatives are taken to the income statement.

2 Segmental analysis

The Group's results are analysed by operational segment which is the Group's primary reporting segment under IFRS. These segments reflect the Group's organisational structure and are consistent with the Group's internal management reporting structure.

	Unaudited 6 months to 30 June 2005 £'000	Unaudited 6 months to 30 June 2004 £'000	Audited 12 months to 31 December 2004 £'000
Results by operational segment:			
Revenue			
UK operations	7,120	6,987	14,205
International operations	5,898	5,872	11,431
	13,018	12,859	25,636
Profit before taxation			
UK operations	1,436	1,983	3,811
International operations	577	607	1,142
	2,013	2,590	4,953
Total equity			
UK operations	19,175	15,767	17,282
International operations	1,614	974	1,239
	20,789	16,741	18,521

	Unaudited 6 months to 30 June 2005 £'000	Unaudited 6 months to 30 June 2004 £'000	Audited 12 months to 31 December 2004 £'000
Revenue can be further analysed by geographical segment:			
Revenue by location of customer			
United Kingdom	4,521	4,572	8,776
Europe (other than the United Kingdom)	4,487	4,469	8,653
Rest of the world	4,010	3,818	8,207
	13,018	12,859	25,636

3 Taxation

	Unaudited 6 months to 30 June 2005 £'000	Unaudited 6 months to 30 June 2004 £'000	Audited 12 months to 31 December 2004 £'000
The tax charge is made up as follows:			
United Kingdom corporation tax at 30%	433	401	947
Overseas tax	253	462	518
	686	863	1,465
Origination and reversal of temporary differences:			
Deferred tax	(72)	(39)	2
	614	824	1,467

4 Dividends

	Unaudited 6 months to 30 June 2005 £'000	Unaudited 6 months to 30 June 2004 £'000	Audited 12 months to 31 December 2004 £'000
Equity dividend interim 0.48p per ordinary share	–	–	194
Equity dividend final 0.9p per share	365	308	308
	365	308	502

The proposed interim dividend of £197,000 (June 2004: £194,000) will be paid on 4 November 2005 to shareholders registered at the close of business on 7 October 2005.

5 Earnings per share

The calculation of the basic earnings per share is based on the earnings attributable to ordinary shareholders of £1,380,000 (June 2004: £1,728,000; December 2004: £3,447,000) divided by the weighted average number of shares in issue during the period being 40,592,702 (June 2004: 38,679,848; December 2004: 39,646,487). Shares held in employee share trusts are treated as cancelled for the purposes of this calculation.

The calculation of diluted earnings per share is based on the calculation described above adjusted to allow for the issue of shares and the post tax effect of dividends and/or interest, on the assumed conversion of all dilutive options. The difference between the basic and diluted weighted average number of shares for all periods is wholly attributable to outstanding share options.

	Unaudited 6 months to 30 June 2005	Unaudited 6 months to 30 June 2004	Audited 12 months to 31 December 2004
Basic earnings per share	3.40p	4.47p	8.69p
Diluted earnings per share	3.27p	4.36p	8.37p

Notes to the interim report for the period ended 30 June 2005 continued

6 Property, plant and equipment

	Leasehold improvements £'000	Plant, equipment & vehicles £'000	Consigned surgical instrumentation £'000	Total £'000
Cost				
At 1 January 2005	495	5,845	5,815	12,155
Additions	13	344	665	1,022
Exchange movement in the period	–	(1)	(21)	(22)
Disposals	–	(10)	(184)	(194)
At 30 June 2005	508	6,178	6,275	12,961
Depreciation				
At 1 January 2005	416	3,645	2,351	6,412
Provided in the period	9	372	240	621
Exchange movement in the period	–	2	(12)	(10)
Eliminated on disposals	–	(10)	(37)	(47)
At 30 June 2005	425	4,009	2,542	6,976
Net book amount at 30 June 2005	83	2,169	3,733	5,985
Net book amount at 31 December 2004	79	2,200	3,464	5,743

The figures stated above for plant and equipment include assets held under finance leases, as follows:

	£'000
Net book amount at 30 June 2005	557
Net book amount at 31 December 2004	312
Depreciation provided in the period	85

7 Acquisitions

On 26 April 2005, Corin International Limited acquired 100% of the nominal share capital of Corin Medical Products (Shanghai) Company Limited, a newly formed Chinese company, for a cash consideration of US \$200,000 plus expenses of £8,760. No goodwill arose on acquisition.

8 Share capital

	30 June 2005 number	31 December 2004 number	30 June 2005 £'000	31 December 2004 £'000
Authorised:				
Ordinary shares of 2.5p each	66,100,000	66,100,000	1,653	1,653

Allotted, called up and fully paid:

Ordinary shares of 2.5p each	40,963,123	40,404,499	1,024	1,010
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Share issues under share option schemes

The following ordinary shares were issued during the period, pursuant to the exercise of options granted under the schemes detailed below:

Date of issue	Share scheme	Number of ordinary shares	Exercise price
14 February 2005	UCSOP Issue 1	8,000	£1.11
20 April 2005	UCSOP Issue 1	263,000	£1.11
20 April 2005	UCSOP Issue 2	50,000	£1.355
05 May 2005	SAYE Issue 1	4,624	£0.93
10 May 2005	UCSOP Issue 1	208,000	£1.11
27 June 2005	UCSOP Issue 4	25,000	£2.05

The proceeds of the ordinary shares allotted in the period were invested in working capital. Any proceeds in excess of nominal value have been credited to the share premium account.

Under IFRS 2 a charge of £243,000 was taken in the profit and loss due to the fair valuation calculations of these options.

9 Reconciliation of changes in equity

	Unaudited 6 months to 30 June 2005 £'000	Unaudited 6 months to 30 June 2004 £'000	Audited 12 months to 31 December 2004 £'000
Opening balance	18,007	9,894	9,894
Changes in equity			
Employee share scheme charge	243	133	316
Exchange differences on translation of foreign operations	(83)	(246)	(241)
Tax on items taken directly to equity	419	128	192
Net income recognised directly in equity	579	15	267
Profit for the period	1,380	1,728	3,447
Total recognised income and expense for period	1,959	1,743	3,714
Dividends	(365)	(308)	(502)
Issue of share capital	-	4,905	4,901
Equity share options issued	655	-	-
Closing balance	20,256	16,234	18,007

Notes to the interim report for the period ended 30 June 2005 continued

10 Notes to the consolidated cash flow statement

Reconciliation of net cash flow to movement in net funds/(debt)

	Unaudited 6 months to 30 June 2005 £'000	Unaudited 6 months to 30 June 2004 £'000	Audited 12 months to 31 December 2004 £'000
(Decrease)/increase in cash in the period	(2,054)	2,269	2,480
Net cash outflow/(inflow) from financing in the period	112	465	(459)
Net cash (inflow)/outflow from finance leases in the period	(212)	36	(120)
	(2,154)	2,770	1,901
Exchange differences	(3)	24	(18)
Movement in (debt)/funds	(2,157)	2,794	1,883
Net (debt)/funds at 1 January 2005	529	(1,354)	(1,354)
Net (debt)/funds at 30 June 2005	(1,628)	1,440	529

11 Transactions with directors

Amounts paid to Tarrakarn Limited, a company of which W S C Richards is a director and shareholder, totalled £17,500 during the period (December 2004: £35,000, June 2004 £17,500).

12 Publication of non-statutory accounts

The financial information set out in this interim report does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The figures for the year ended 31 December 2004 have been restated under IFRS from the UK GAAP statutory financial statements which have been filed with the Registrar of Companies. The auditors' report on those financial statements and on the IFRS restatement was unqualified and did not contain a statement under Section 237(2) of the Companies Act 1985.

13. Reconciliation of UK GAAP to Preliminary IFRS Consolidated Income Statement for the period ended 30 June 2004

	30 June 2004 UK GAAP £'000	Share based payments IFRS 2 £'000	Goodwill IFRS 3 £'000	30 June 2004 Preliminary IFRS (Reviewed) £'000
Revenue	12,859	–	–	12,859
Cost of sales	(3,638)	–	–	(3,638)
Gross profit	9,221	–	–	9,221
Distribution costs	(253)	–	–	(253)
Administrative expenses	(6,195)	(133)	25	(6,303)
Operating profit	2,773	(133)	25	2,665
Net interest	(75)	–	–	(75)
Profit on ordinary activities before taxation	2,698	(133)	25	2,590
Taxation	(863)	39	–	(824)
Profit on ordinary activities after taxation	1,835	(94)	25	1,766

The above UK GAAP numbers have been restated into IFRS format (in accordance with IAS 1).

14 Reconciliation of Equity from UK GAAP to Preliminary IFRS Consolidated Balance Sheet as at 30 June 2004

	30 June 2004 UK GAAP £'000	Transitional adjustments* £'000	Share based payments IFRS 2 £'000	Intangible Assets £'000	Dividends IAS 10 £'000	30 June 2004 Preliminary IFRS (Reviewed) £'000
Assets						
Non-current assets						
Goodwill and intangible assets	2,280	–	–	25	–	2,305
Property, plant and equipment	4,776	–	–	–	–	4,776
Deferred tax	–	46	167	–	–	213
Total non-current assets	7,056	46	167	25	–	7,294
Current assets						
Inventories	8,182	–	–	–	–	8,182
Trade and other receivables	5,902	–	–	–	–	5,902
Cash and cash equivalents	4,050	–	–	–	–	4,050
Total current assets	18,134	–	–	–	–	18,134
Total assets	25,190	46	167	25	–	25,428
Equity and liabilities						
Equity attributable to equity holders of the parent						
Called up share capital	1,010	–	–	–	–	1,010
Share premium account	13,161	–	–	–	–	13,161
Employee share scheme reserve	–	122	261	–	–	383
Own shares held reserve	(10)	–	–	–	–	(10)
Translation reserve	(246)	–	–	–	–	(246)
Retained earnings	1,887	232	(94)	25	(114)	1,936
Equity shareholders' funds	15,802	354	167	25	(114)	16,234
Minority interests	507	–	–	–	–	507
Total equity	16,309	354	167	25	(114)	16,741
Non-current liabilities						
Long term borrowings	1,685	–	–	–	–	1,685
Provisions	–	–	–	–	240	240
Total non-current liabilities	1,685	–	–	–	240	1,925
Current liabilities						
Trade and other payables	4,972	(308)	–	–	(126)	4,538
Short-term borrowings	925	–	–	–	–	925
Current tax payable	1,299	–	–	–	–	1,299
Total current liabilities	7,196	(308)	–	–	(126)	6,762
Total liabilities	8,881	(308)	–	–	114	8,687
Total equity and liabilities	25,190	46	167	25	–	25,428

The above UK GAAP numbers have been restated into IFRS format (in accordance with IAS 1).

* Transitional adjustments, which relate to share based payments and dividends, are detailed in the IFRS transition report.

Independent review report to Corin Group PLC

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2005 set out on pages 1 to 15. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Our report has been prepared in accordance with the terms of our engagement to assist the company in meeting the requirements of the Listing Rules of the Financial Services Authority and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

As disclosed in note 1, the next annual financial statements of the Company will be prepared in accordance with International Financing Reporting Standards as adopted for use in the EU. This interim report has been prepared in accordance with the basis set out in note 1. The accounting policies are consistent with those that the directors intend to use in the next annual financial statements. As explained in note 1, there is a possibility that the directors may determine that some changes to those policies are required when preparing the full annual financial statements for the first time in accordance with IFRS, since the IFRS and IFRIC interpretations that will be applicable and adopted for use in the European Union at 31 December 2005 are not known with certainty at the time of preparing this interim financial information.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2005.

BDO Stoy Hayward LLP

Chartered Accountants

Reading

27 September 2005



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